

*Senate Budget and Fiscal Review*  
SUBCOMMITTEE NO. 1

EDUCATION  
Jack Scott, Chair  
John Vasconcellos  
Bob Margett

Part 2

May 23, 2003  
1:30 p.m.  
Room 2040

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## I. GOVERNOR'S SCHOLARS PROGRAM

### A. Reduction Pursuant to SB 18X

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
0954-101-0001	<i>May Finance Revision Letter:</i> Governor's Scholar's Program (Issue 001)	Decreases by <u>\$16,800,000</u> the expenditure authority for the Governor's Scholarship Programs, based on revised award projections. This change is consistent with statutory changes adopted in SB 18X and administrative adjustments to the program. The revision reflects the expected cost of providing awards to 11th graders who qualified in the current year.	Approve May Revision		

## II. California Department of Education -- State and Federal Funding

### A. Basic Aid

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-610-0001	<i>May Revision</i> <i>Finance Letter: <u>Basic Aid District Excess Taxes</u> (Issue 053)</i>	Increases revenue limit funding by <u>\$126,244,000</u> to rescind the Governor's January 10 proposal for Basic Aid districts excess taxes.	Approve May Revision		
6110-230-0001	<i>May Revision</i> <i>Finance Letter: <u>Basic Aid District Alternative</u> (Issue 004)</i>	Reduce Categorical Funding for Basic Aid Districts by approximately \$20,000,000 as an alternative to the Governor's January 10 proposal.	Reject May Revision. Adopt alternative reduction proposal based on a 1.198 percent reduction to Basic Aid revenue limits and excess property taxes. This reduction will yield state savings of approximately \$10 million.	BBL	(\$10,000,000)

## B. Special Education

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-161-0001	May Revision Finance Letter: <a href="#">State General Funds for Special Education</a> (Issue 100)	<b>Property Tax Adjustment:</b> Reduce state special education funding by <u>\$3,140,000</u> to reflect an increase in Special Education Property Tax revenues.	Approve May Revision		
6110-161-0001	May Revision Finance Letter: <a href="#">State General Funds for Special Education</a> (Issue 102)	<b>Growth:</b> Increase state special education funding by <u>\$15,636,000</u> to reflect an increase in prior-year adjustments for growth.	Approve May Revision		
6110-161-0001	May Revision Finance Letter: <a href="#">State General Funds for Special Education</a> (Issue 104)	<b>General Fund Offset:</b> Increase state special education funding by \$32,493,000 to reflect decrease in the amount of special education federal funds available for use as an offset pursuant to the state special education funding formula.	Approve May Revision		
6110-161-0001	May Revision Finance Letter: State General Funds for Special Education (Issue 105)	<b>Maintenance-of-Effort:</b> Decrease in state special education funding by \$21,004,000 due to the elimination of one-time funds to address federal maintenance- of- effort requirements under the Governor's mid-year reduction proposals. The Legislature rejected this proposal, so these funds are no longer needed.	Approve May Revision		

## B. Special Education

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-161-0890	<a href="#"><i>May Revision Finance Letter: Federal IDEA Funds for Special Education</i></a> (Issues 002-005)	<b>AB 3632 Services:</b> Increase federal IDEA funds by \$35,910,000 to reflect an increase in Part B grants. Add provisional language specifying \$69,000,000 is to be used to reimburse mandate claims associated with AB 3632 related mental health services. This allocation is the result of shifting \$33,090,000 from Schedule (1) local assistance and using an increase of \$35,910,000 in Part B funds.	Approve May Revision	BBL	
6110-161-0890	<a href="#"><i>May Revision Finance Letter: Federal IDEA Funds for Special Education</i></a> (Issues 006)	<b>Preschool Adjustment:</b> Decrease federal IDEA funds by \$319,000 to reflect a lower pre-school grant level.	Approve May Revision		
6110-161-0890	<a href="#"><i>May Revision Finance Letter: Federal IDEA Funds for Special Education</i></a> (Issue 007)	<b>Sweetwater Funds:</b> Add provisional language to specify that <u>\$500,000</u> appropriated in Schedule (4) is available to fund nonpublic school costs in a single school district for students residing in licensed children's facility (group home).	Amend May Revision to specify that \$350,000 in Schedule (4) is available for emergency impaction funds.	BBL	

## C. Federal Funds -- Title I Set - Aside

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-136-0890	May Revision Finance Letter: Federal Title I State Set-Aside Funds for School Interventions and Sanctions (Issue 217)	Increases funding in Schedule (1) federal Title I Set-Aside Funds by \$19,227,000 to reflect an increase in the federal grant of \$3,700,000 and \$15,500,000 in carryover funds.	Approve May Revision Funding Level, but adopt LAO Spending Plan and BBL language.	BBL	

## D. Federal Funds -- Title I Reading First

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-126-0890	<i>May Revision Finance Letter:</i> Federal Title I Funds for Reading First Program (Issue 252)	Increases funding by \$13,635,000 to reflect an increase in federal grant allocation.	Approve May Revise funding level, but direct \$10 million to fund students who are being instructed in bilingual programs and do not currently have access to the Reading First program. TBL to amend the State Reading First Plan to allow bilingual programs to be eligible (reference the 2.5 hours of instruction in English and the instructional materials.	BBL	

## E. Federal Funds -- Title VI State Assessments

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-113-0890	<i>May Revision Finance Letter:</i> Federal Title VI Funds for Assessments (Issue 203)	Increases federal Title VI State Assessments funds by \$17,221,000 to reflect an increase of \$1.1 million in the federal grant allocation and a carryover of \$16.1 million in 2002-03 funds.	Approve May Revise with amendment to include \$1 million set-aside for alternative assessment for special education pending Legislation. Delete language that conditions expenditures upon approval by DOF.		
6110-113-0890	<i>May Revision Finance Letter:</i> Federal Title VI Funds for Standards and Assessments for Students with Disabilities (Issue 204)	Increases funding by \$600,000 on a one-time basis to provide training and materials regarding standards and assessments for pupils with disabilities.	Approve May Revision	BBL	

## F. Education Mandates

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-295-0001	May Revision Finance Letter: <u>State Mandated Local Programs</u> (Issue 003)	Decreases funding by \$125,423,000 to reduce payment for all K-12 Education Mandates to \$1,000 and defer the remainder of payments for an additional year.	Approve May Revision.		

## G. State Operations -- East End Complex

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
	May Revision Finance Letter:	The January Budget included an increase to SDE's state operations budget for the increased costs of occupancy of the East End Complex. Due to the Superintendent's recent decision not to occupy Block 172 of the East End, it is requested that several state operations items be decreased to reflect adjusted rent costs as follows:	Approve May Revision		
6110-001-0001 CDE	East End Complex	Decrease Item 6110-001-0001 by \$382,000 and amend provisional language.	Approve May Revision		
6110-001-0890 CDE	East End Complex	Decrease Item 6110-001-0890 by \$575,000 and amend provisional language.	Approve May Revision	BBL	
6110-001-6036 CDE	East End Complex	Decrease Item 6110-001-6036 by \$15,000 and amend provisional language.	Approve May Revision	BBL	
6110-001-0178 CDE	East End Complex	Decrease Item 6110-001-0178 by \$6,000 and amend provisional language.	Approve May Revision	BBL	
6110-001-0231 CDE	East End Complex	Decrease Item 6110-001-0231 by \$6,000 and amend provisional language.	Approve May Revision		
6110-001-0687 CDE	East End Complex	Decrease Item 6110-001-0687 by \$42,000 and amend provisional language.	Approve May Revision	BBL	

## G. State Operations -- East End Complex

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-015-0001 CDE	East End Complex	Decrease Item 6110-015-0001 by \$3,000 and amend provisional language.	Approve May Revision	BBL	
6110-507-0942 CDE	East End Complex	Decrease Item 6110-507-0942-0001 by \$5,000 (provisional language amended as part of change to Item 6110-001-0001)	Approve May Revision		
6110-001-0001 and 6110-001-0890 CDE	East End Complex Rent (Issue 401)	Shifts \$1,312,000 among program schedules. This technical adjustment is necessary to correctly schedule the federal funds increase for SDE rents costs to the appropriate programs	Approve May Revision		

## H. Other May Revise

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-230-0001	<u>May Revision Letter: Continuation of Deferrals Pursuant to SB 18X.</u>	The Subcommittee Approved this May Revision proposal on 5/22. The Subcommittee also took action on 5/22 to eliminate the Grade 7-8 Math Academies (\$12.8 m) and \$K-4 Intensive Reading Program (\$30.6 m). The P2 deferral includes \$3.6 m for Math Academies and \$9.8 m for Intensive Reading. Payments for these programs in the budget year cannot be deferred if they are being eliminated.	Amend the May Revise to adopt <u>\$13.4 million in alternative deferrals</u> for Math Academies (\$3.6) and K-4 Intensive Reading (\$9.8 m) programs. This action conforms to the Subcommittee's action to eliminate these programs in the budget year. The Subcommittee may want to consider the Targeted Instruction Improvement Grant as an alternative program deferral.		
6110-230-0001	<u>May Finance Revision: National Board Teacher Certification Incentives Program (Issue 003)</u>	Decreases funding by \$5,000,000 bringing total funding for the program to \$6.5 million. Alternatively, the LAO has recommended several options for reducing the program.	Approve LAO Option B. to provide an additional \$800,000 over the May Revision level, bringing total funding to \$7.3 million. This covers existing commitments through July 1, 2003, and provides funding for teachers now becoming certified and serve in low-performing schools.		800,000
6110-120-0001	<u>May Revision Letter: Supplemental Grants</u>	The May Revision Proposal recommends an \$80,000,000 reduction to the Supplemental Grants program. A total of \$241,739,000 is budgeted for this program in 2003-04. This equates to a 33 percent reduction to this program.	Open -- The Subcommittee held this item open for discussion.		

## H. Other May Revise

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-123-0001	<u>May Revision Letter: Accountability Programs -- Sanctions Savings</u> (Issue 211)	The Subcommittee took action on this item on 5/22, including \$4.5 million in savings from the HP program identified by LAO. The LAO has identified an additional \$3.0 million in savings from school sanctions programs.	Approve additional savings of \$3,000,000 from school sanctions programs.		-3,000,000
6110-195-0890	<u>May Revision Letter: NCLB Title II Grants -- Improving Teacher Quality Grants</u>	Increase funding by <u>\$20,504,000</u> to reflect an increase in the federal grant levels.	Approve May Revision		
0650-114-0001 Office of Secretary for Education	<u>Governor's January Budget: School-to-Career Program</u>	Eliminates the School-to-Career Program for a savings of \$2,000,000.	Reject Governor's January Budget Proposal and move \$1.7 million to the California Department of Education.		

## **I. LEA Reserve Flexibility Language**

**The Subcommittee is considering a number of options for providing greater flexibility to local education agencies in the use of reserve funds for general purposes, including:**

- (1) making restricted reserve balances available for general purposes;**
- (2) lowering the level of budget reserves for economic uncertainties below the one to five percent now required;**
- (3) lowering the reserve requirement for Deferred Maintenance below the 3 percent level now required.**

**Background:** Existing law requires the State Board of Education to adopt standards and criteria to be used by local educational agencies in the development of annual budgets and the management of subsequent expenditures from that budget. Existing law requires those standards and criteria to include comparisons and reviews of reserves and fund balances.

Current State Board of Education standards and criteria require local educational agencies to maintain reserves for economic uncertainties. The amount of that reserve varies by districts, from 1 to 4 percent, based on a sliding scale by size. Most districts are required to maintain a 3 percent reserve. The funding to which the percentage is applied is based on both general and categorical funding received, but the reserve itself must be maintained with resources from districts' general funds.

The Governor proposed eliminating the general fund reserve requirement entirely for the 2002-03 fiscal year. Instead, the Legislature approved a provision in SB 18X that provides limited flexibility to LEA's in accessing their reserves for economic uncertainty and restricted reserve accounts in the current year.

Specifically, SB 18X, authorizes a local educational agency to use, for purposes determined by its governing body, up to 50% of its reserves for economic uncertainties and up to 50% of the balances, as of July 1, 2002, of restricted

accounts in its General Fund, excluding restricted reserves committed for capital outlay, bond funds, sinking funds, and federal funds.

SB 18X also states the intent of the Legislature that local educational agencies use this flexibility for certain purposes and make every effort to maintain a prudent expenditure plan that ensures solvency for the 2002–03 fiscal year and in subsequent fiscal years.

As enacted, provision 3 of SB 18X includes the following language:

*33128.2. (a) Notwithstanding the standards and criteria adopted pursuant to paragraph (3) of subdivision (a) of Section 33128 or any other law, for the 2002–03 fiscal year only, a local educational agency may use for purposes determined by its governing body up to 50 percent of its reserves for economic uncertainties and up to 50 percent of the balances, as of July 1, 2002, of restricted accounts in its General Fund, excluding restricted reserves committed for capital outlay, bond funds, sinking funds, and federal funds, in order to provide local budgeting flexibility as a result of midyear budget reductions for the 2002–03 fiscal year that are enacted by the Legislature after January 2003. (b) A local educational agency may not, pursuant to paragraph (a), use the combined budgetary reserves in excess of its total midyear budget reductions for the 2002–03 fiscal year. (c) It is the intent of the Legislature that a local educational agency use the flexibility provided in subdivision (a) to the extent midyear budget reductions for the 2002–03 fiscal year occur in the following programs:*

*(1) The Peer Assistance and Review Program.*

*(2) Supplemental instruction and remedial programs.*

*(3) One-time funding for the Instructional Materials Funding Realignment Program.*

*(d) It is further the intent of the Legislature that a local educational agency make every effort to maintain a prudent expenditure plan that ensures its solvency for the 2002–03 fiscal year and in subsequent fiscal years.*

**Budget Action/Issues:** There is no specific proposal before the Subcommittee from the Governor, although it is understood that some LEA flexibility is a part of the Governor’s May Revision. Several education organizations have requested that LEA’s be given additional flexibility in accessing local fund reserves in order to maintain classroom instruction given the fiscal enormous budget shortfalls facing our schools.

Suggested Questions:

- *In providing reserve flexibility to LEA's should it be time limited? Assuming the state's fiscal health is restored in the future, does it make sense to provide flexibility permanently?*
- *How have the provisions of SB 18X been utilized by LEA's?*
- *CDE has reportedly had difficulty clarifying the meaning of the reserve flexibility provisions of SB 18X for LEAs. What are the specific problems and are there lessons learned that could inform the Legislature's thinking on any proposals in the budget year?*
- *Do state agencies or LEA's have any idea about the amount of funding currently contained in restricted reserve accounts? Do such funds accumulate from particular categorical programs? Are there differences in how LEA's spend and accumulate funds from these accounts?*
- *In providing flexibility to LEA's are there some restricted reserves that should not be tapped, for example funds for Economic Impact Aid?*

## **J. Adult Education Funding – Concurrent Enrollment**

The issue for the Subcommittee to consider is the Governor's January Budget proposal to reduce funding for adult education by \$13.5 million to reflect the results of "audits" of adult education programs in the early 1990's. There is currently \$582 million in the 2003-03 budget for Adult Education, as revised by SB 18X.

Background: In the Governor's January Budget proposal, the Administration proposed to reduce adult education funding by \$13.5 million "pursuant to audits of inappropriate concurrent enrollment in the 1990's". The Administration did not rescind this proposal as part of the May Revision, so the issue remains before the Subcommittee.

The issue in question is very old, referring to adult education ADA claimed by 36 school districts in the 1990-91 through 1992-93 fiscal years. There is substantial disagreement as to whether the proposed cuts reflect the results of actual audits, or simply recalculations of funding based on new state agency interpretations. Disagreements among the local agencies and the various involved state agencies have resulted in the issue remaining in impasse for many years. The issue is currently in litigation.

Comments:

The Legislature has repeatedly taken action to resolve these audits, included legislation (AB 259/Chavez) passed last year to refer the issue to the newly formed Education Audits Appeals Panel. That bill was vetoed by the Governor, who indicated in the veto message that he was asking the Secretary for Education to work with the newly elected State Superintendent to develop a plan of action to deal with the issue. Absent any such agreement, and since the issue is in litigation, it appears premature to reduce adult education ADA based on findings which are under serious dispute.

*Staff recommends rejecting the Governor's January 10 Budget Proposal to reduce funding by \$13.5 million.*

## **K. April Finance Letters – Recommended Changes**

On April 1, 2003, the Department of Finance requested amendments to the Governor's 2003-04 Budget for the following K-12 education items. Several of the amendments recommended by DOF are included on the consent list (See Section III)

The following two items have been set-aside for special consideration by the Subcommittee because they contain provisional language that subjects funding to approval of DOF:

### **1. 6110-001-0001, 6110-001-0890, and 6110-161-0890 Special Education (Issue 002, 001)**

It is requested that \$250,000 be transferred from Item 6110-001-0890 to Item 6110-161-0890 for interpreter training and certification. This transfer would correctly characterize this activity as local assistance rather than state operations. As a conforming action, it is requested that Provision 18 of Item 6100-001-0890 be deleted and that provisional language be added to Item 6110-161-0890 as follows:

X. Of the funds appropriated in Schedule (1) of this item, \$250,000 shall be provided to districts for interpreter instruction, training, and certification. This funding shall be annually renewable for two years. pursuant to Department of Finance approval of an annual progress report which shall be completed by April 30 of each year, beginning in 2003.

***Staff recommends approval of language with deletion of language (shaded above) requiring an annual progress report and approval by DOF.***

**2. 6110-112-0890, Public Charter Schools (Issue 004)**

It is requested that this item be increased by \$8,369,000 to reflect the receipt of greater than anticipated federal funding for grants to charter schools. It is also requested that the Department of Finance be granted authority to shift an amount of up to \$422,00 to the SDE for state operations purposes relating to charter school grant activities upon approval of a work and expenditure plan.

It is requested that the following provisional language be added to the item:

Provisions:

X. Of the funds appropriated in this Item, an amount of up to \$422,000 may be transferred to Item 6110-001-0890 to be used for state operations purposes relating to federal charter school grants upon Department of Finance approval of a work and expenditure plan proposed by the Department of Education.

***Staff recommends approval of language with deletion of language (shaded above) requiring approval of a work and expenditure plan.***

### **III. Charter Schools Facilities Program -- April Finance Letter**

Chapter 935, Statutes of 2002 (AB 14) established the Charter School Facilities Program (CSFP). This pilot program is designed to meet the facilities needs of charter schools throughout the state by providing a mechanism for the distribution of \$100 million in General Obligation bond funding pursuant to Section 100620 of Chapter 33, Statutes of 2002 (AB 16).

The California School Finance Authority (CSFA), within the State Treasurer's Office, administers the CSFP. The CSFA is allowed to charge the Charter Schools Facilities Account for its administrative costs.

The State Treasurer's Office submitted an April Finance Letter request for \$531,000 in General Obligation bond funds and three permanent positions for workload associated with the CSFP. Of the amount requested, \$263,000 is for salaries and benefits, \$220,000 is for internal and external contract services, and \$48,000 is provided for operating expenses and equipment.

***Staff Notes: While staff agrees that some level of resources and staffing may be required for the new program, we note the following concerns with the proposal contained in the Finance Letter:***

- 1. AB 14 specifically stated the intent of the Legislature that this program be implemented as a pilot program to determine the optimum method for providing school facilities funding for charter schools. Given this intent, the establishment of permanent positions as proposed appears neither advisable nor necessary. Staff recommends instead that these positions be provided on a three-year limited-term basis. (This is consistent with the OPSC staff proposed pursuant to Prop 47.).*
- 2. The budget bill language proposed for this program would allow the Department of Finance to augment the budget of the CSFA in excess of the amount approved by the Legislature, 30 days after notification in writing is provided to the Chair of the Joint Legislative Budget Committee. However, neither of the other two departments currently administering the School Facilities Program (the State Department of Education and the*

*Office of Public School Construction) have such latitude with state bond funds. The \$100 million provided for charter schools pursuant to AB 16 is reportedly oversubscribed by \$82 million. Since this language could result in additional state operations costs at the expense of local projects, it is recommended that Provision 1 of the proposed budget bill language be eliminated. (See attached alternate language.)*

3. *Finally, the Finance Letter would provide funding for \$95,000 in interdepartmental contracts, \$65,000 of which is unspecified. Given that we have not been provided with adequate justification for this expenditure, and given the limited size of the bond funds available for this program, it is recommended that the funding for interdepartmental contracts be reduced by \$65,000.*

***Staff recommends approval of the April Finance letter with the following alternative language:***

0985-001-6040—For the support of the California School Finance Authority,  
payable from the Charter School Facilities Account, 2002 State School Facilities

Fund.....	531,000
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Schedule:	466,000
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(1) 20- Charter School Facilities Program.....	531,000
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Provisions:	466,000
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1. ~~Notwithstanding any other provision of law, the Director of Finance May authorize expenditures for the California School Finance Authority in excess of the amount appropriated not sooner than 30 days after notification in writing of the necessity therefore is provided to the chairperson of the fiscal committees and the Chairperson of the Joint Legislative Budget Committee, or not Sooner than whatever lesser time the chairperson of the Committee, or his or her designee, may in each instance Determine.~~

2.1. Of the amount appropriated in this item, \$125,000 is for the one-time support of external contracts for consultants who are qualified to provide technical assistance and training in the development of financing programs for charter schools.